

Pearson Edexcel GCE

Economics and Business

Advanced

**Unit 4B: The Wider Economic Environment and
Business**

Wednesday 22 June 2016 – Afternoon

Time: 1 hour 30 minutes

Paper Reference

6EB04/01

Insert containing all source material.

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question paper.**

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Evidence A

Top scientists warn World Health Organization (WHO) not to stub out e-cigarettes

A group of 53 leading scientists has warned the WHO not to classify e-cigarettes as tobacco products, arguing that doing so would jeopardise a major opportunity to cut disease and deaths caused by smoking. The WHO had previously indicated it would favour applying similar restrictions to all nicotine-containing products.



In an open letter to WHO Director General, Margaret Chan, the scientists from Europe, North America, Asia and Australia argued that low-risk products like e-cigarettes were “part of the solution” in the fight against smoking, not part of the problem.

A move to classify e-cigarettes alongside real cigarettes would push countries into taking similar tough measures to restrict demand, including raising taxes, banning advertising and introducing health warnings and curbing use in public places.

(Source: adapted from <http://www.reuters.com/article/2014/05/28/health-ecigarettes-idUSL6N0OD3ZE20140528>)

Evidence B

Percentage of the UK population who smoke cigarettes, by age

%	Age					
	16–19	20–24	25–34	35–49	50–59	60+
1978	34	44	45	45	45	30
1988	26	37	36	36	33	23
1998	31	40	35	31	28	16
2008	22	30	27	24	22	13
2009	24	26	25	25	21	14
2010	19	27	26	24	19	13
2011	18	29	23	24	19	13
2012	15	29	27	23	21	13

(Source: http://www.ash.org.uk/files/documents/ASH_106.pdf)

Evidence C

E-cigarettes: miracle or health risk?

More than two million people in the UK get their nicotine hit via electronic cigarettes. But as 'vaping' replaces smoking – and is enthusiastically marketed by the tobacco giants – no one is yet sure how safe they actually are.



In 2013, according to a survey by YouGov for the anti-tobacco charity Action on Smoking and Health (ASH), the number of e-cigarette users in the UK had risen to 2.1 million, a three-fold increase over the previous year. The investment bank Goldman Sachs puts the products top of a list of "creative destroyers" – including big data, 3D printing and natural gas engines – that are likely to turn their markets upside down, and sees annual global sales of e-cigarettes hitting \$10bn within a few years.

(Source: <http://www.smokefreeengland.co.uk/resources/guidance-and-signage/>)

For V-Revolution in Covent Garden, which claims to be London's first shop dedicated exclusively to e-cigarettes, that means business is brisk. Since opening last May, the store has seen a 90% increase in custom, it now sells well over 50 reusable e-cigarettes a day – at prices, depending on their size and voltage, ranging from £25 to £90 each – plus many more bottles of e-juice, the liquid mixture of nicotine, flavourings and dilutants that the devices vapourise. Some emulate the taste of traditional cigarettes, such as Chesterfield, Marlboro Red or Camel; others taste of apple, coffee, berries, tropical fruit, even piña colada – and customers hand over their £7.99 for a 20ml bottle, generally enough for the equivalent of around 200 cigarettes. Internet sales are booming.

By far their biggest users are smokers. According to an ASH survey, nearly two-thirds of e-cigarette users in the UK are current smokers seeking to cut down or give up altogether, while the remaining third are ex-smokers who have already stopped and are keen not to restart. Only 0.1% of e-cigarette users are non-smokers.

(Source: adapted from <http://www.theguardian.com/society/2014/may/05/rise-of-e-cigarettes-miracle-or-health-risk>)

Evidence D

Risk of disease and death from smoking

Smoking is the primary cause of preventable illness and death. Every year smoking causes around 100,000 deaths in the UK. Smokers under the age of 40 have a five times greater risk of a heart attack than non-smokers.

Smoking causes around 80% of deaths from lung cancer, around 80% of deaths from bronchitis and emphysema, and about 17% of deaths from heart disease.

More than one quarter of all cancer deaths can be attributed to smoking. These include cancer of the lung, mouth, lip, throat, bladder, kidney, pancreas, stomach, liver and cervix.

On average, cigarette smokers die 10 years younger than non-smokers.



(Source: © Crown copyright)

(Source: <http://www.ash.org.uk>)

Evidence E

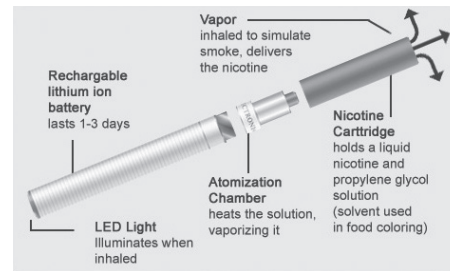
Should the NHS provide electronic cigarettes on prescription?

E-cigarettes are more effective than nicotine patches and gum in helping people to quit smoking, according to a study that challenges the negative views of some public health experts. Supporters say the vast majority of smokers are using e-cigarettes to kick their tobacco habit and that the health consequences of nicotine use without the tar from cigarettes appear, as yet, to be far less of a problem.

The study, by a team from University College London, looked at attempts of nearly 6,000 people to stop smoking and found that, while engaging with the NHS smoking cessation services was the most effective way to quit, using e-cigarettes beat nicotine replacement therapy, as well as the efforts of people who try to stop with no help at all.

When the results were adjusted to account for the differences between smokers in terms of background, age and other variables, those using e-cigarettes were around 60% more likely to quit than those using nicotine replacement therapy or just willpower.

(Source: <http://www.theguardian.com/society/2014/may/20/e-cigarettes-nicotine-patches-smoking-study>)



(Source: <http://www.ecigshopcypressca.com/how-do-electronic-cigarettes-work/>)

Evidence F

Cigarette smoking by age and employment status in UK 2012

<i>Persons aged 16 and over</i>						
	Age group					
Employment status	16–24 %	25–34 %	35–49 %	50–59 %	60 & over %	Total %
In Employment						
Current cigarette smokers	23	25	20	18	16	21
Ex-smoker	4	14	18	22	34	18
Never smoked	73	61	62	60	50	61
ILO Unemployed						
Current cigarette smokers	35	54	41	30	17	39
Ex-smoker	4	12	17	20	56	14
Never smoked	61	34	42	50	27	47
Economically Inactive						
Current cigarette smokers	16	29	33	29	12	17
Ex-smoker	3	12	16	25	34	26
Never smoked	81	59	51	46	54	57

(Source: http://www.ons.gov.uk/ons/dcp171776_328041.pdf)

Evidence G

Does smoking cost as much as it makes for the Treasury?

Even though we know that 463,000 adult hospital admissions last year were attributed to smoking, we need to be more sophisticated when estimating the particular strain placed on the health service by smokers and how this translates into costs.



Most of the research in the field derives from estimates made back in 1991. Back then, smoking was said to cost the NHS £1.4–£1.7 billion a year (closer to £2–2.5 billion in today's prices). Since then, other research has put the cost at £2.7 billion in 2006 (£3 billion today) and even £5.2 billion in 2005/06 (over £6 billion today).

In short, smoking is likely to be costing the NHS between £2.5 and £6 billion in today's prices.

While smoking has a direct impact on the NHS, it can also be said to have an indirect impact on society more widely (for instance, fire services need to be called out to incidents caused by smoking and ill health can result in more absenteeism from work). The Policy Exchange made an attempt at quantifying the wider costs, coming up with a £14 billion total (including the £2.7 billion NHS costs).

According to HM Revenue and Customs (HMRC) figures, the typical price of a pack of 20 cigarettes was £6.83 in 2012. Of this, a full £5.61 was tax, including tobacco duty and VAT. So 82% of the price of a pack is tax that goes back to the Treasury. Hand-rolling tobacco is less burdened by tax (67% goes to the Treasury) and cigars even less so (45%).

The government took in a total of about £9.5 billion in tobacco duties and the Tobacco Manufacturers' Association estimates another £2.6 billion went to the Treasury in VAT in 2012. So the Treasury is taking in about £12 billion directly from tobacco sales.

Even here, you could argue indirect benefits such as taxes from people employed in the tobacco industry and the contribution of tobacco sales to the economy as a whole could add to the Treasury's intake. Again, that's where we go beyond the realm of fact and into very complicated and uncertain estimates.

The tax and duty paid to the government more than makes up for the NHS costs, although the much bigger 'unknown' costs to the wider economy create a less clear picture.

(Source: adapted from https://fullfact.org/factchecks/does_smoking_cost_as_much_as_it_makes_for_the_treasury-29288)

Evidence H

UK price of 20 cigarettes and taxation 1990–2013

	RRP £ per 20	Tax Burden £ per 20	Tax Incidence %
1990	1.65	1.20	73
1995	2.70	2.09	77
2000	3.88	3.08	79
2005	4.82	3.77	78
2010	6.13	4.67	76
2013 (from 20 March)	7.98	6.17	77

(Source: <http://www.the-tma.org.uk/tma-publications-research/facts-figures/uk-cigarette-prices/>)

Evidence I

Cigarette prices in Europe



(Source: <http://www.the-tma.org.uk/wp-content/uploads/2014/07/EU-Cigarette-Prices.jpg>)

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Economics and Business

Advanced

Unit 4B: The Wider Economic Environment and Business

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Time: 1 hour 30 minutes

Paper Reference

6EB04/01

You must have:

Insert containing all source material (enclosed)

Total Marks

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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- You may use a calculator.

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Candidates are expected to be familiar with Evidence A to I for this paper before the examination.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

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SECTION A

Evidence A to I was pre-issued before the date of the examination.

Using ALL the evidence and your own knowledge, answer all six questions (total 30 marks).

Time allowed (35 minutes)

Unseen Evidence J

Price and cigarette consumption

For all 52 countries in Europe, price elasticity of demand (PED) was calculated as -0.46 for local brand and -0.74 for foreign brand cigarettes.

The PED for foreign brand cigarettes in European countries who are not members of the European Union is -0.8 . By comparison the PED for member states of the European Union is -0.4 .

5

On average, in Europe, smoking consumption decreases by between 5% and 7% for every 10% increase in the real price of cigarettes.

(Source: adapted from <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2563577/>)

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1 What is meant by the term **price elasticity of demand**? (Evidence J, Line 1.)

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(Total for Question 1 = 2 marks)

2 What is meant by the term **real price of cigarettes**? (Evidence J, Line 7.)

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(Total for Question 2 = 2 marks)



3 Analyse **one** likely impact on the UK market for traditional tobacco products of the increased demand for e-cigarettes.

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4 Explain **one** negative externality of tobacco consumption.

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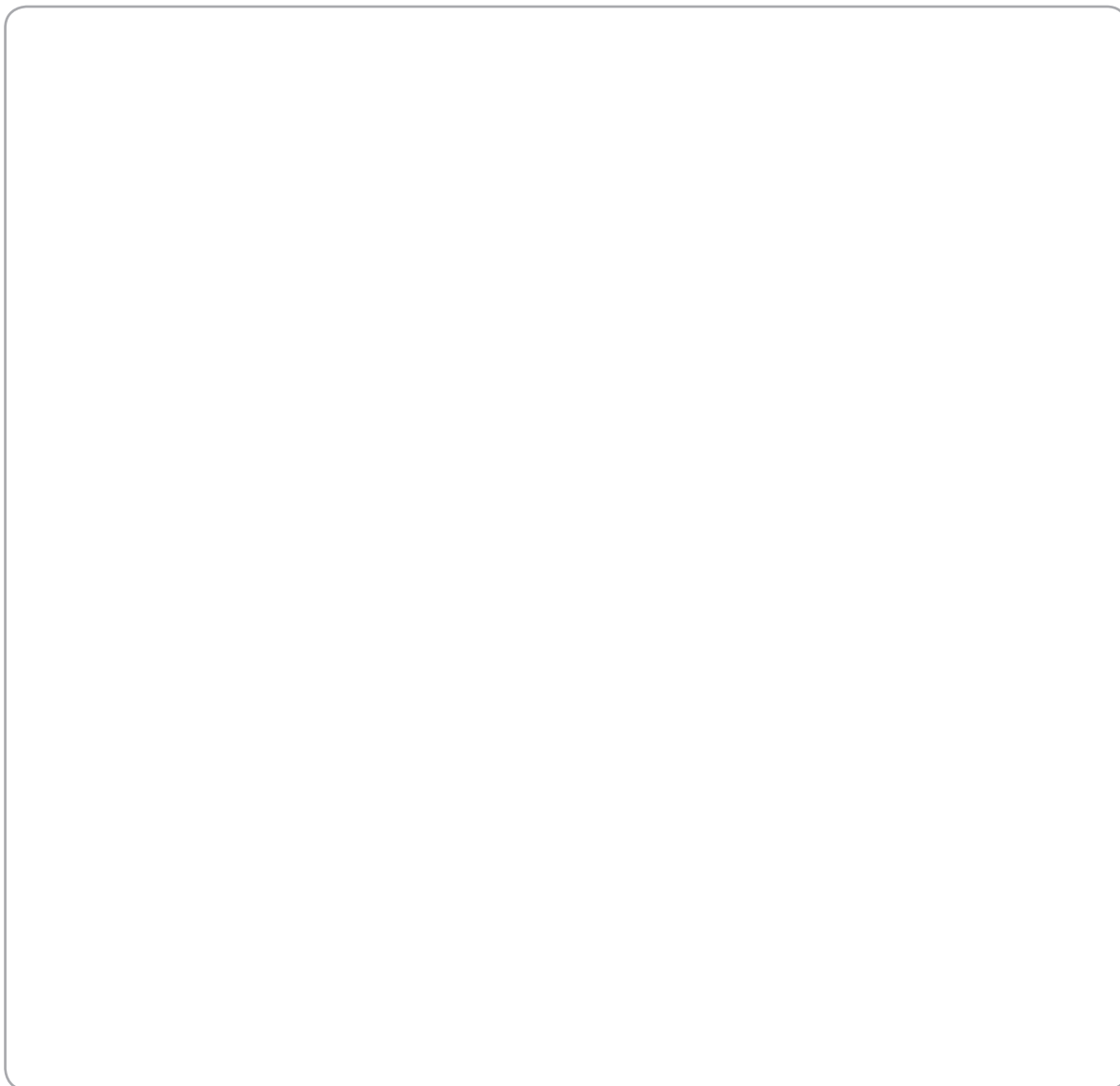
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(Total for Question 4 = 4 marks)



5 Using a fully labelled supply and demand diagram, explain how taxation of tobacco products may reduce negative externalities.



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(Total for Question 5 = 8 marks)



6 "There is clear evidence that increasing the costs of smoking encourages smokers to quit and discourages young people from taking it up."

(Source: Chancellor George Osborne; Budget Statement in March 2012)

Assess this view in relation to the evidence on smoking in the UK.

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(Total for Question 6 = 10 marks)

TOTAL FOR SECTION A = 30 MARKS



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7 *(b) Evaluate the argument that the National Health Service (NHS) should charge patients for the treatment of smoking-related conditions.

(30)

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(Total for Question 7 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 80 MARKS

